

# EU High-Level Expert Group on Sustainable Finance

Established by the European Commission

Secretariat within the Directorate General for Financial Stability, Financial Services  
and Capital Markets Union  
(DG FISMA)  
2017





**GLOBAL CONSENSUS** on the need to address climate change and to support transition to a low-carbon, more resource-efficient and sustainable economy



**INTERNATIONAL POLICY FRAMEWORKS** such as Paris COP21 agreement, EU 2030 Climate and Energy Goals, UN 2030 Sustainable Development Goals which have set ambitious objectives for significant, longer-term investments in sustainable projects



**STRONG EUROPEAN COMMITMENT** to Sustainable Investment and Finance, at the heart of the Capital Markets Union Reform: mobilizing capital in Europe for growth and development; building deeper and more integrated capital markets for all 28 Member States of the EU

# Sustainable Finance encompasses multiple definitions and targets

## NARROW DEFINITION

- **ESG**: Combining strong financial performance, financial stability and advancements in social, environmental and governance practices
- **Green Finance**: investments towards environmental friendly, low-carbon and 2°C target projects

## BROAD DEFINITION

- **Smart, inclusive growth** for all
- Investing in human capital and harvesting natural resources to meet the needs of **current and future generations**

## BROADEST DEFINITION

- A system that is not only **temporarily stable** but that focuses systematically and permanently on contributing to the **societal challenges**
- Reflecting and integrating that all challenges are **long-term**, aligned with human scales/projects and with natural resources lifespan and replenishment rates



## Vision for a sustainable financial system

*Among the topics to be tackled:*

- Capital Allocation
- Cost of capital reflective of externalities
- Consistency of intent across investment chain
- Risk Management
- Long-term horizons
- Sustainable banking
- Governance and accountability

## Examples of what is missing in our current financial system

- Aligning financial regulation with sustainable development goals
- Time misalignments
- Incentive structure and time horizons of intermediaries in the EU investor market
- ESG vs sustainable investing
- Cultural aspects

# The Expert Group on Sustainable Finance

**20 high-level experts**

- Civil society
- Finance
- Academia



- Established by the European Commission (lead: Directorate General FISMA)
- Multidisciplinary group to propose reform of the European financial and regulatory framework
- Deep knowledge and understanding of financial markets and regulation
- Commitment to new challenges: climate, environment, sustainability
- Civil society: NGOs and think-tanks
- Finance: Insurers, Asset Managers, Banks
- Academia: Economics and Finance
- 9 observers from International and European institutions

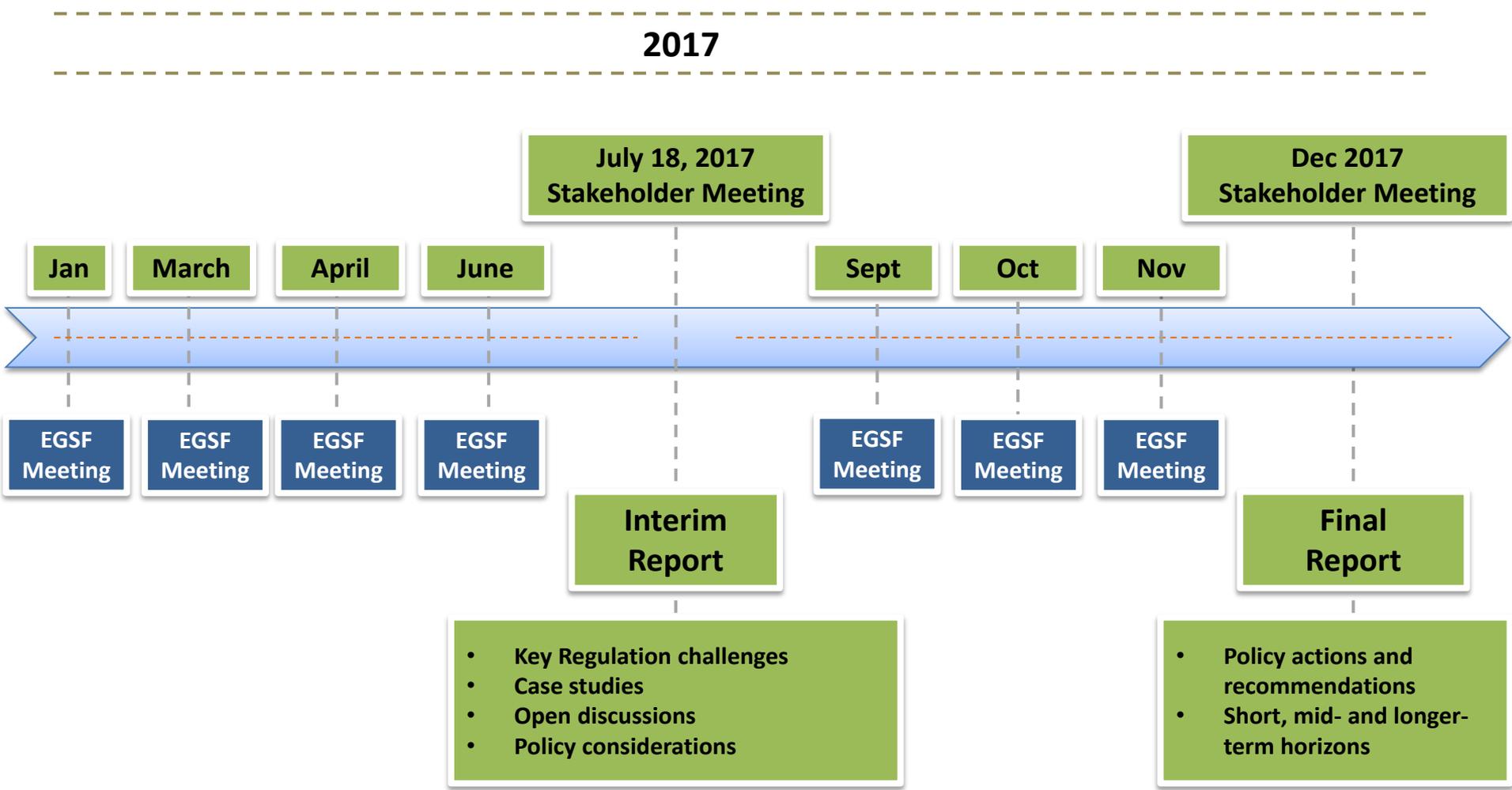
## Mandate

- 1** Help develop an EU strategy on sustainable finance that mobilises capital market resources for sustainable investments while preserving financial market stability
- 2** Identify areas of reform of the EU financial policy framework to increase green and sustainable finance
- 3** Propose clear and operational policy recommendations on how to better align the financial system with EU policies in support of sustainable growth and investments

## Objectives

- Achieve an EU Sustainable Financial System and Economy
- Mobilize finance for sustainable investments while maintaining financial stability of institutions exposed to carbon-intensive sectors and assets
- Commit to COP21 and EU 2030 goals
- Stay below 2°C target

# Expert Group on Sustainable Finance: Timeline 2017



# Patronage of the European Group on Sustainable Finance



“We are committed to promoting sustainable finance. The members of our High-Level Expert Group will help us hardwire sustainability into EU financial policy. They will ensure our approach to sustainable finance is ambitious and at the forefront of innovation.”

**Valdis Dombrovskis**, Vice-President for the Euro and Social Dialogue, Financial Stability, Financial Services and Capital Markets Union

“The finance sector has a critical role to play in re-orienting capital towards more sustainable technologies and uses, and financing Europe's energy transition needs. [...] This is crucial for jobs, growth and competitiveness. The Expert Group report has the potential to make a landmark contribution to shaping European policy.”



**Jyrki Katainen**, Vice-President for Jobs, Growth, Investment and Competitiveness

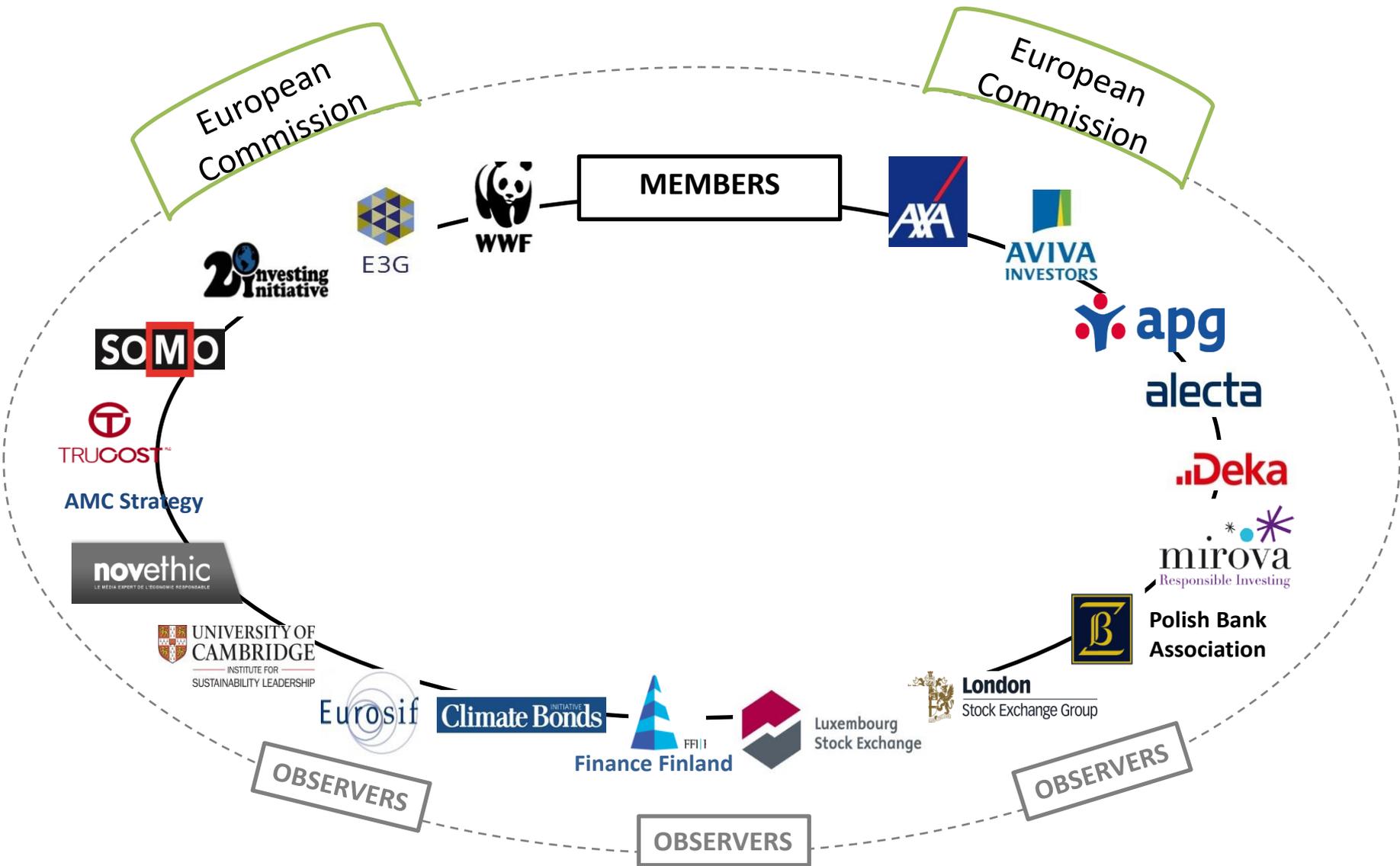


“The task of the High-Level Expert Group is not simple: it is politically charged and technically complex. [...] Among the core issues is how to integrate sustainability considerations while not manipulating the risk signal of prudential rules. There is also an issue of timing adequacy between risks settlements and financial regulations adaptation.”

**Olivier Guersent**, Director-General of DG FISMA



# Structure of the Expert Group on Sustainable Finance (EGSF)



# Expert Group Composition: Members and Observers

## MEMBERS

## OBSERVERS

### LTIs & Asset Managers

- Alecta – Pension Fund
- APG Asset Management
- AXA
- Aviva Investors
- Deka Investment GmbH
- Federation of Finnish Financial Services
- London Stock Exchange
- Luxembourg Stock Exchange
- Mirova – Natixis Asset Management
- Polish Bank Association

### Non-Governmental Organizations, Academic & Think-Tanks

- 2° Investing Initiative
- Cambridge Institute for Sustainability Leadership
- Climate Bonds Initiative (CBI)
- EUROSIF
- E3G – Third Generation Environmentalism
- SOMO – Centre for Research on Multinational Corporations
- WWF France
- AMC Strategy
- Novethic
- Trucost

- European Systemic Risk Board (ESRB)
- European Environment Agency (EEA)
- UN Principles for Responsible Investment (UNPRI)
- European Association of Long-Term Investors (ELTI)
- United Nations Environment Programme (UNEP)
- Single Resolution Board (SRB)
- European Investment Bank (EIB)
- International Capital Markets Association (ICMA)
- Nordic Investment Bank (NIB)



**1. Vision and Sustainable Finance**

**Shared Vision and Understanding**

**A more aligned financial system & economy**

**Integrating sustainability into the functioning of the EU Financial System**

**2. Integration of sustainability into the EU Financial Policy and Regulation Framework**

**Adapting processes, incentives & culture across the entire lending investment & lending chain**

**Capturing long-term and sustainability risks**

**Addressing obstacles to sustainable orientation and time misalignments**

**A more sustainable financial system & economy**

**3. Recommendations to mobilizing more capital flows to sustainability projects**

**Mobilizing more capital flows towards a sustainable economy with investments & job creation**

- Expanding financial markets for sustainable assets
- Orienting capital towards new sustainable investments / projects

**Real economy sustainable projects/assets, supply and demand**

# Key areas identified by the Expert Group

	Topics covered	Objectives
1	<b>Vision of Sustainable Finance and understanding</b>	<ul style="list-style-type: none"> <li>Defining a shared European vision, scope and focus in sustainable finance with key success factors</li> </ul>
2	<b>Integrating sustainability into the functioning of the EU regulatory and financial policy framework</b>	<ul style="list-style-type: none"> <li>Adapting processes, incentives and culture across the entire investment and lending chain</li> <li>Developing proposals for corresponding adjustments in the EU financial policy and regulatory framework</li> </ul>
	<b>Addressing and mitigating risks</b>	<ul style="list-style-type: none"> <li>Addressing and mitigating risks linked to long-term sustainability challenges</li> <li>Defining nature of new climatic risks</li> <li>Tackling financial stability policies and macro/micro regulation</li> </ul>
	<b>Addressing structural obstacles and time misalignments</b>	<ul style="list-style-type: none"> <li>Addressing structural obstacles and time misalignments preventing long-term and sustainable investments</li> </ul>
3	<b>Mobilizing more capital flows towards a sustainable economy with investments &amp; job creation</b>	<ul style="list-style-type: none"> <li>Expanding financial markets for sustainable assets</li> <li>Expanding and supporting development of nascent green and social assets by defining the actors, instruments, processes, incentives, etc.</li> </ul>
	<b>Orientation of capital towards sustainable investments/projects</b>	<ul style="list-style-type: none"> <li>How to scale up and re-orient capital flows to match the investments?</li> <li>How to contribute to the success of a comprehensive 2030 sustainable, smart and inclusive European growth strategy</li> </ul>

## Adapting processes, incentives and culture across the entire investment and lending chain



- Investment chain and archetypical banks, insurers, pension fund, asset managers
- Analysing fiduciary duty and governance
- Analysing incentives, culture and norms (compensation, competences, training, etc.)

## Addressing and mitigating risks



- Systemic risks within the resource, environment and climatic dimensions (physical, transition and legal risks)
- Mitigating banking sector risks to sustainability (prudential regulation, fiscal policies, stress tests, etc.)
- Mitigating insurance sector risks (Solvency II, stress tests, etc.)

## Addressing structural obstacles and time misalignments



- Time horizon and sustainability: how does short-termism impede sustainable finance?
- Using benchmarks to help investors define their strategies
- Introducing sustainability in accounting frameworks
- Frequency of corporate reporting

## Expanding financial markets for sustainable assets

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- Investigating taxonomies, standards and labels
  - Identifying the financial instruments for sustainable finance (fixed incomes projects, equities – market and private – infrastructures, loans, real estate, etc.)
  - Identifying market players and sustainable finance ecosystem

## Orientation of capital towards sustainable investments/projects

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- Meeting the EU's 2030 and 2050 climate and energy goals
  - Delivering an inclusive and sustainable economic recovery
  - Increasing resource efficiency and competitiveness through a circular economy

## Selection of EU legislation which will be reviewed with regard to possible integration of « Sustainable Finance » (sustainability, ESG, fiduciary duty)

- Accounting Directive
- Non-financial disclosure directive
- Institutions for Occupational Retirement Provision (IORP)
- Packaged Retail and Insurance-based Investment Products (PRIIPS)
- Prospectus Directive
- Shareholder Rights Directive II
- Transparency Directive
- Insurance Distribution Directive (IDD)
- Solvency II
- Markets in Financial Instruments Directive (MIFID II)
- Undertakings for Collective Investment in Transferable Securities (UCITS)
- Alternative Investment Fund Managers Directive (AIFMD)
- European Long-Term Investment Fund (ELTIF)
- European Venture Capital Fund (EuVECA)
- European Social Entrepreneurship Funds (EuSEF)
- European Systemic Risk Board (ESRB)
- Capital Requirements Regulation (CRR)
- Capital Requirements Directive (CRD IV)



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